Reagan Consulting

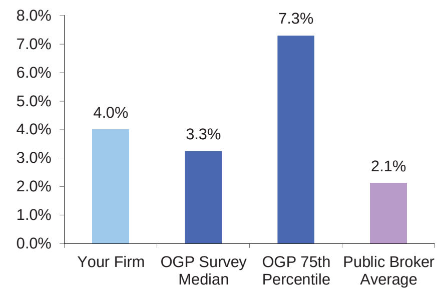
Q1 2011
OGP ID: 9999

Organic Growth & Profitability Survey (OGP) - Q1 2011

- Median annualized revenue for surveyed firms is approximately $16 million, average is over $30 million. All U.S. geographies represented.
- Public broker averages include AJG, AON, BRO, MMC and WSH and are taken from public filings and press releases.

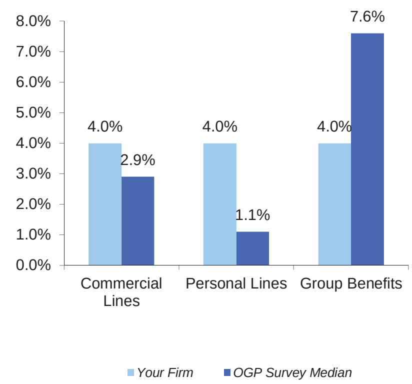
Organic Growth

Total Agency Organic Growth



Your organic growth rank: **50th - 60th percentile**

Organic Growth by Product Line

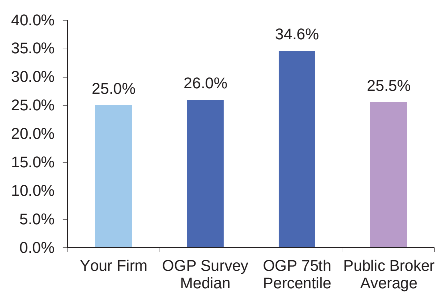


Reagan Consulting Observations

- Median organic growth is rising, coming in at 3.3% for the first quarter of 2011. Organic growth was -1.4% during the first quarter of 2010.
- With some relief in both the economy and the rate environment, commercial lines revenues grew at 1.1% during Q1 2011
- Even with improving growth figures, about one quarter of all firms reported negative organic growth while 14% of all firms reported double-digit growth in Q1 2011
- **OGP Projected 2011 Growth: 4.5%** OGP firms have revised their guidance upward from 4.1% in the Q4 2010 survey.

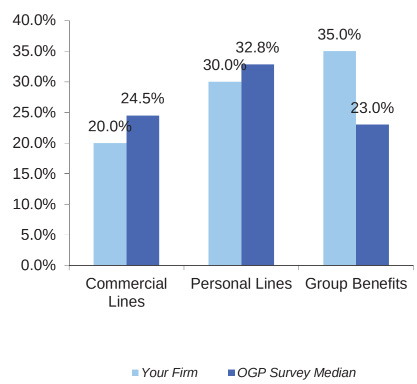
Profitability

Total Agency EBITDA Margin



Your profitability rank: **40th - 50th percentile**

EBITDA Margin by Product Line

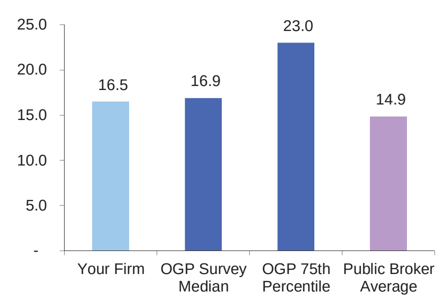


Reagan Consulting Observations

- The median EBITDA margin in Q1 2011 of 26.0% was up significantly over prior year results (Q1 2010 margin was 21.9%)
- Please note that these EBITDA margins are temporarily inflated by contingent income, which is recorded on a cash basis for many OGP firms.
- Contingent income was up by 0.5% in Q1 2011, reversing a trend of decreasing contingent income in the past two years
- **OGP Projected 2011 Margin: 18.0%** OGP firms have revised full-year guidance up slightly from 17.5%.

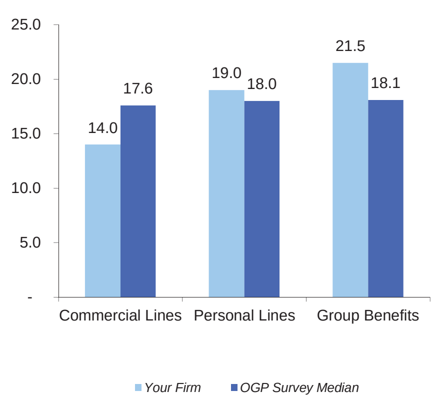
The Rule of 20 (1)

Total Agency Rule of 20



Your Rule of 20 rank: **40th - 50th percentile**

Rule of 20 by Product Line



Reagan Consulting Observations

- Cash-basis contingent income also drives Rule of 20 scores temporarily higher, with the median score in Q1 2011 coming in at 16.9. Almost 40% of all firms recorded a score above 20 in the first quarter.
- **OGP Projected 2011 Score: 13.5** The median full-year Rule of 20 score is now projected to be 13.6, slightly higher than the initial 2011 projection of 12.8. This full-year number reflects contingent income spread across the entire year's results.

(1) Reagan Consulting has developed a metric called the “Rule of 20” to provide a quick means of benchmarking an agency's shareholder returns. The Rule of 20 is calculated by adding half of an agency's EBITDA margin to its organic revenue growth rate. An outcome of 20 or higher means an agency is likely generating, through distributions and / or share appreciation, a shareholder return of approximately 15% - 17%, which is a typical agency / brokerage return under normal market conditions. Given current market conditions, however, few firms are achieving a score of 20 or better.

NOTE: If data for your firm reads "0.0%" or "0.0" it may mean that no data was submitted for that metric.

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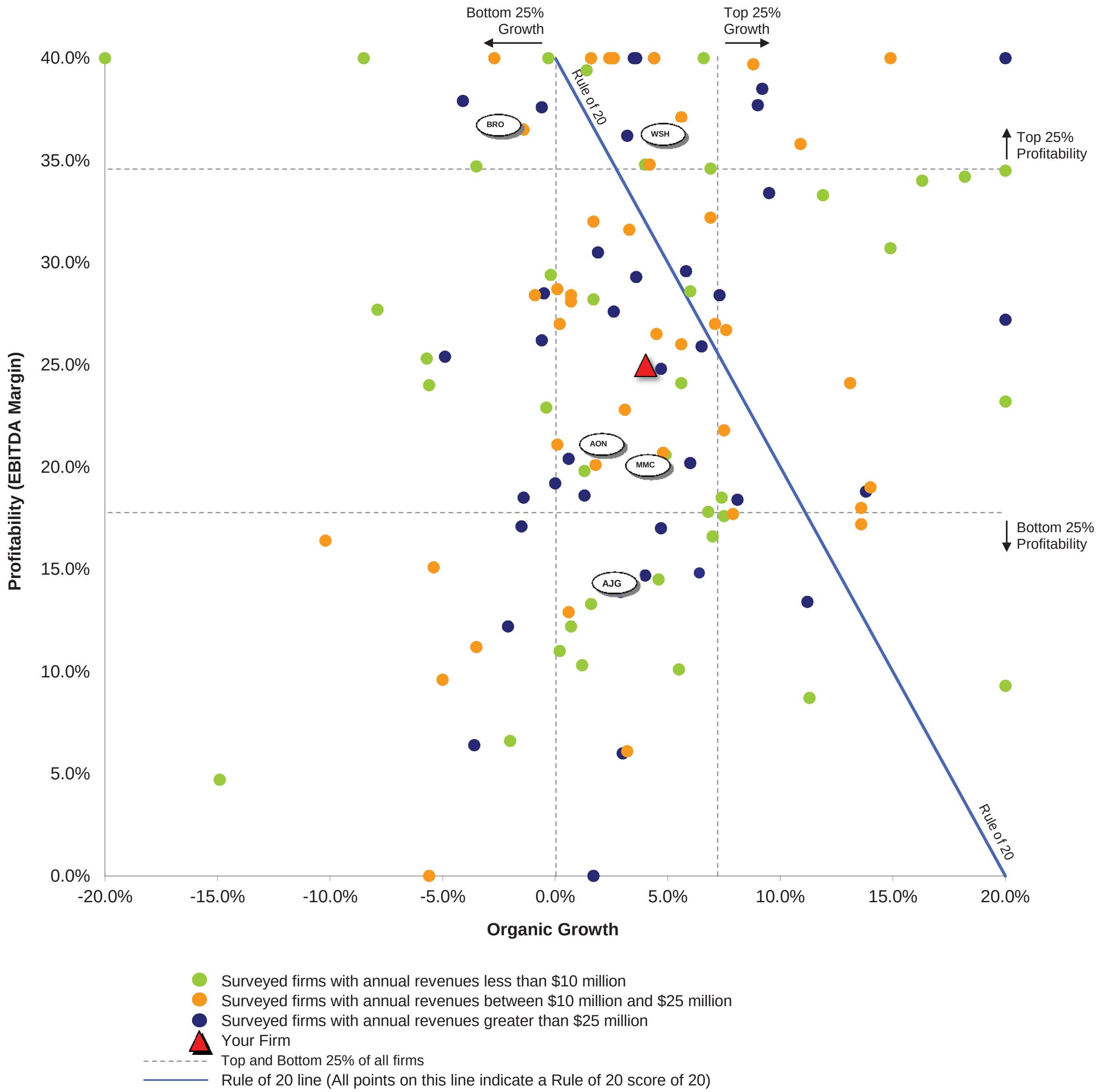
Agency Organic Growth & Profitability Scatter Plot



About the Scatter Plot

In the chart above, we've plotted every firm in the survey that completed both the total agency organic growth section and the total agency profitability section. Each firm's organic growth is plotted along the x-axis, and each firm's profitability is plotted along the y-axis. We've included a couple of guidelines on the graph to help in interpreting the data. The grey dotted lines show the top and bottom 25% of firms in organic growth and profitability. The solid blue line represents all combinations of organic growth and EBITDA margin that result in a Rule of 20 score of 20. Finally, we've broken the firms into groups based on revenue size, as distinguished by the different colored dots. The goal of this scatter plot is to show the wide range of organic growth and profitability results in the industry and to benchmark where your firm falls.

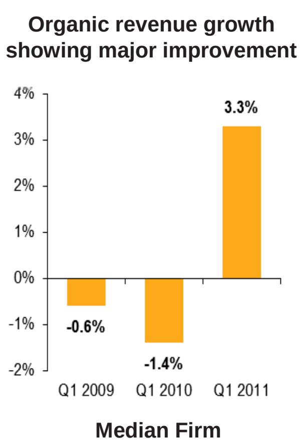
Broker Recovery Building Steam But…Not Everyone is Having the Same Experience

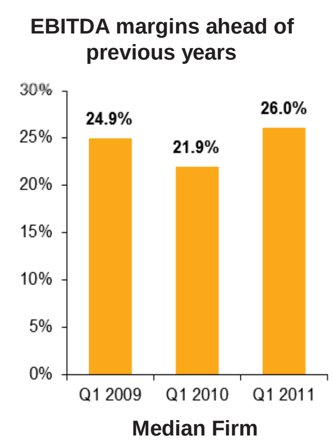
Bobby Reagan & Brian Deitz

Well, we are finally getting some encouraging news: Osama bin Laden has met his maker (it will be interesting to see how that goes) and the recovery of the most important operating characteristics of insurance agents & brokers is gaining positive momentum.

Clearly, the two most important drivers of broker value are organic growth and profitability. It was great to get the OGP results for the first quarter of 2011 and to see that the median U.S. broker saw an increase in organic growth of 4.7 percentage points from Q1 2010 to Q1 2011. This is strong.

At the same time, the median firm had its EBITDA margin go up by 4.1 percentage points. This is very positive and encouraging. Here are the results for Q1 for the past three years for the median OGP firm:

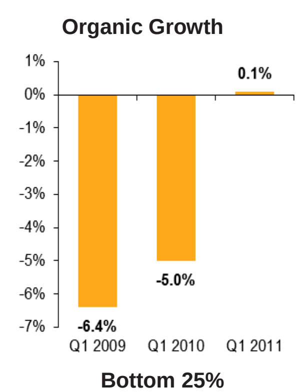


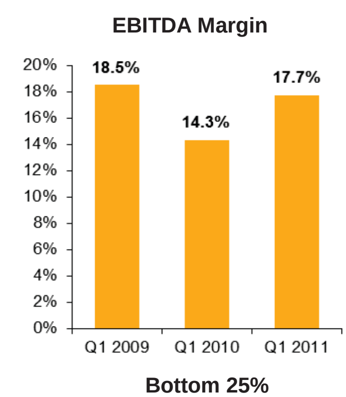


Before we all start giving each other high-fives, we better remember the danger of telling a person that can't swim that they can walk across the river because the average (or median) depth is only 4 feet.

The reality is that the marketplace is very uneven, resulting in many firms operating well above and many well below the median levels. If we take a look at the cutoff for the top and bottom quartiles of these same results, we see a very different picture for 50% of the firms in the U.S.

If we look first at the bottom quartile, we see a very different picture that reminds us that there are some parts of the country where economic conditions are significantly worse and where property and casualty pricing continues to be very soft. If you combine this reality with the fact that many firms have tried to protect their profit margins by reducing their investments in producer hiring over the past several years, you can see why the bottom quartile results have improved materially, but they are still well below the rest of the industry.

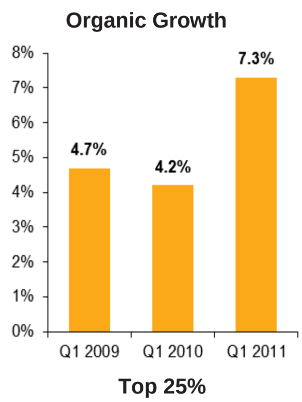


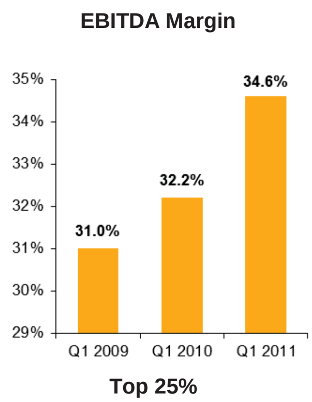


At the other extreme, we see 25% of the firms reporting results that have organic growth rates 4 percentage points (or more) higher than the median and EBITDA margins that are 8.6 percentage points (or more) higher than the median. How are they doing it? Some of this may be good fortune. They are in parts of the country with healthier economies and/or they are seeing more firming in the property and casualty marketplace in general, or at least in the business segments where they operate.

Based on our work with many of these firms, it is more than just good fortune. For the most part, these are firms that recognize that they are, first and foremost, sales organizations. They are raising the bar on their expectations of their producers and are putting in place performance-based incentives to reward superior production. They are also making investments in hiring and developing more production talent and capabilities. This includes college recruiting and goes all the way to hiring experienced producers with large books of business.

We are also seeing a number of these firms getting away from being generalists and getting their producers focused within niches and practice groups that allow them to broaden their marketing territories, gain competitive advantage and improve operating efficiencies.





We are pleased to see overall improvement in broker performance and anticipate this trend to continue throughout the balance of 2011 and into 2012. It does appear that the "tide is coming in" and will lift all of the boats in our industry. At the same time, it is encouraging to see what industry-leading firms are able to accomplish.

There is a lot that is changing and that is going to create opportunities for those firms that are positioned to take advantage of it. We are optimistic about the future of our industry, but especially for the firms that are positioning themselves to be in the front of the pack.

About Reagan Consulting

Reagan Consulting has a singular focus on the insurance distribution system. We have advised many firms – including over half of the top 100 brokers – on strategy, valuation and mergers & acquisitions. With our M&A practice, we are active participants in the deal marketplace for agents and brokers, working on sell-side, buy-side and merger transactions. Since 2007, we have advised on over 40 transactions with a total deal value approaching $1 billion.